



Congressman Jim Jordan (R-OH), Chairman

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President Proposes Spending “Freeze”

The President’s budget will propose a “spending freeze” on the non-defense, non-veterans, non-homeland security, non-foreign aid discretionary spending portion of the federal budget. The portion of the budget that will be subject to the “freeze” amounts to just 13% of all federal spending. Additionally, according to Chris Edwards of the Cato Institute, this portion of the federal budget increased from \$262 billion in FY 2000 to \$699 billion in FY 2009.

One way that Democrats may attempt to further limit the meaning of the “freeze” is by shifting spending from the regular appropriations process to emergency-designated supplementals (spending that does not count against the spending limits in the budget resolution). For example, in recent years, Congressional Democrats have often designated constitutionally-mandated census spending as “emergency” spending.

Some Democrats offered a preview of another potential strategy for getting around the small portion of the federal government that the “freeze” would apply to: just define all spending as “national security” spending, not subject to the “freeze.” For example, Senator Harkin stated: *“National security has more implications than just defense or homeland security... It has to do with the health and the welfare of our people, the education of our kids, and the safety of our streets, the availability of jobs and economic opportunity has to do with the security of this country.”* Under this expansive definition of national security spending, it is unclear what portion of the federal budget (at least from the perspective of a proponent of a domestic program) would not deal with national security. The Senate will soon consider an \$80 billion “stimulus” bill, and the House passed a \$150 billion “stimulus” bill in December—both bills are other examples of spending increases that would be exempt from the President’s spending “freeze” proposal.

Quote of the Week: “If you really believe in freezing spending, then come out in the State of the Union address and promise to veto the Senate Democrats’ \$80 billion spending bill, which they’re drawing up right now, and say you’ll veto the House’s \$154 billion spending bill, too.”

-Senator John McCain, 1/26/10

The RSC offered amendments during the FY 2010 appropriations process, as well as to the first continuing resolution, that would have returned FY 2010 non-defense discretionary spending to FY 2008 levels, saving taxpayers \$84 billion.

New CBO Numbers: Ten-Year Deficit of \$7.4 Trillion

Yesterday, the Congressional Budget Office (CBO) released new projections for the FY 2010-FY 2020 period, which show the federal government running deficits over this period equal to \$7.4 trillion, even under CBO’s optimistic baseline assumptions. For FY 2010, CBO projects a deficit of \$1.35 trillion (9.2% of GDP). With this projection, it is possible, depending on Congressional actions and the economy, that the final FY 2010 figure will exceed last year’s \$1.42 trillion deficit. In every year from FY 2010-FY 2020, the federal deficit is projected to be at a higher level than any year in U.S. history prior to 2009.

CBO’s baseline projections likely understate the ten-year deficit outlook should the President’s policies be adopted. This is because the projections assume that expiring tax cuts are not extended (such as extension of the 2001 and 2003 tax cuts, the AMT patch, and the “Making Work Pay” Tax Credit), no “doc fix” is adopted, and further assumes that discretionary spending grows at the rate of inflation (under the FY 2010 omnibus it grows at 8%).

CBO projects under a more realistic scenario—the tax cuts are extended, the AMT patch is not allowed to expire, and discretionary spending grows at the rate GDP (in recent years it has grown much faster than this)—the public debt will be almost 100% of GDP by 2020. This is a figure that has only been reached during, and just after, World War II.